

## Message Text

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ACTION EB-07

INFO OCT-01 AF-08 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 OPIC-03 /113 W

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R 120852Z AUG 76

FM AMEMBASSY TANANARIVE

TO SECSTATE WASHDC 8366

INFO AMEMBASSY LONDON

C O N F I D E N T I A L TANANARIVE 1296

E. O. 11652: GDS

TAGS: EINV, ENRG, MA, US

SUBJ: OIL COMPANY NATIONALIZATIONS

REF: (A) STATE 197250 (NOTAL), (B) TANANARIVE 1092

1. SUMMARY. CHARGE PLANS TO SEE MINISTER OF ECONOMY IN ORDER TO GIVE US VIEWS RE EXPROPRIATIONS, BUT GOVERNMENT CHANGES ARE IMMINENT. TIMING OF MY CALL THEREFORE IS UNCERTAIN. THERE APPEARS TO BE NO PROGRESS AS YET VIS-A-VIS NEGOTIATIONS FOR COMPENSATION WHICH ARE NOW RUMORED TO TAKE PLACE IN OCTOBER. IRAQ IS NOW SUPPLYING ALL CRUDE BUT AT HIGHER PRICES THAN MALAGASY ARE USE TO PAYING. GDRM HAS TURNED DOWN OIL COMPANIE' REQUEST TO RAISE RETAIL PRICES. END SUMMARY.

2. UPON RECEIPT REF (A), I REQUESTED MEETING WITH MINISTER OF ECONOMY RARIVOSON, WHO IS ALSO CHAIRMAN OF MANAGEMENT COMMITTEE OF NEW STATE-OWNED OIL COMPANY SOLIMA (SOLITANY MALAGASY). I PLAN TO GIVE RARIVOSON AIDE MEMOIRE ALONG LINES PARA 3 REF (A) WHICH IS GENERALLY THE SAME PRESENTA-  
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TION I MADE TO HIM ORALLY ON JULY 1 (REF B). I AM NOT

CERTAIN WHEN I WILL BE GRANTED AUDIENCE, SINCE GOVERNMENT HAS BEEN DISSOLVED AS OF AUGUST 2 FOLLOWING SUDDEN DEATH OF PRIME MINISTER. NEW GOVERNMENT HAS NOT YET BEEN NAMED AND FORMER MINISTERS, NOW ACTING AS CARETAKERS, SPEND MOST OF THEIR TIME DELIBERATING REPLACEMENT FOR PRIME MINISTER. A SIZABLE SHAKEUP MAY BE IN THE OFFING, PERHAPS ELIMINATING RARIVOSON WHOSE PRO-WESTERN ECONOMIC BACKGROUND CONFLICTS WITH GDRM'S POLITICALLY-ORIENTED DECISIONS ON ECONOMIC MATTERS.

3. DURING CONVERSATION AUGUST 10, MALAGASY EMPLOYEE OF EX-ESSO TOLD ME THAT AS FAR AS HE CAN DETERMINE, NEGOTIATIONS RE COMPENSATION ARE FAR OFF. (COMMENT: SOLIMA MANAGEMENT MAY SIMPLY BE TOO PREOCCUPIED WITH ASSURING CONTINUED FLOW OF OIL AND RESTRUCTURING COMPANY TO WORRY ABOUT NEGOTIATIONS AT THIS TIME. END COMMENT.) SOURCE SAID THAT ESSO PLANS TO TAKE "VERY HARD LINE" IN NEGOTIATIONS. ALSO, DESPITE EARLIER ASSURANCES, ESSO WAS NOT ALLOWED TO SEND EX-DIRECTOR GAUTRET'S FILES TO HIM IN LONDON.

4. SAME SOURCE SAID THAT GDRM HAS SIGNED CONTRACT WITH IRAQ WHICH WILL HENCEFORTH SUPPLY ALL CRUDE FOR TAMATAVE REFINERY. PRICES WILL BE HIGHER THAN PRICES BEFORE NATIONALIZATION. INITIAL SHIPMENT OF ALGERIAN CRUDE WAS NOT GIFT, AS ORIGINALLY REPORTED, AND APPARENTLY WAS SUBSTANTIALLY MORE EXPENSIVE THAN CRUDE PREVIOUSLY SHIPPED IN BY ESSO.

5. SOURCE SAID THAT SONATRACH WILL SUPPLY ALL MISCELLANEOUS LUBRICANTS AND AVGWH AND THAT SONATRACH IS ALSO SUPPLYING SOME TECHNICIANS FOR THE REFINERY. HE DID NOT KNOW IF THESE ALGERIANS WOULD REPLACE OR SUPPLEMENT ROMANIANS WHOSE PRESENCE WE PREVIOUSLY REPORTED.

6. ACCORDING TO SOURCE, NEW MALAGASY MANAGERS OF FIVER OIL MARKETING COMPANIES HERE (NOW ALL PART OF SOLIMA) HAVE EXPRESSED TO GDRM THE URGENT NEED TO RAISE OIL PRICES. HOWEVER, GDRM REACTED THUSLY: "HOW CAN WE NATIONALIZE THE COMPANIES AND THEN RAISE PRICES?" SOURCE ESTIMATED THAT COMBINED COMPANIES WILL SHOW FMG ONE

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BILLION (ABOUT US\$ 4 MILLION) DEFICIT FOR 1976.

7. ITALIAN AMBASSADOR ANGELINI ROTA INFORMED ME AUGUST 12 THAT DELEGATION FROM ENI HAD VISITED TANANARIVE LAST WEEK. ENI PLANS TO COOPERATE AS MUCH AS POSSIBLE WITH SOLIMA IN ORDER TO ASSURE PARTICIPATION IN DEVELOPMENT OF PETROCHEMICAL COMPLEX AT TAMATAVE. THEREFORE, AGIP REPRESENTATIVES, ACCORDING TO ANGELINI ROTA, WILL NOT BE

DIFFICULT DURING NEGOTIATIONS WITH GDRM FOR COMPENSATION OF AGIP'S NATIONALIZATION. HE SAID THAT, BARRING UNUSUAL CHANGES RESULTING FROM EXPECTED GOVERNMENT SHAKEUP, NEGOTIATIONS WILL PROBABLY TAKE PLACE IN OCTOBER.

8. ESSO SOURCE INDICATED THAT FRENCH MAY ALSO TAKE EASY LINE DURING NEGOTIATIONS, PRESUMABLY TO CASH IN ON BUILDING OF PETROCHEMICAL COMPLEX.

9. ACTION REQUESTED: IN ORDER TO PASS USG POLICY STATEMENT CONTAINED STATE 81210 TO GDRM, IS THERE FRENCH VERSION AVAILABLE?

10. COMMENT. ALTHOUGH RARIVOSON ORIGINALLY TOLD US THAT COMPENSATION NEGOTIATIONS WOULD TAKE PLACE IN AUGUST, WE FELT IT UNLIKELY THAT THEY WOULD BE PREPARED TO UNDERTAKE BOTH REORGANIZATION OF OIL COMPANY STRUCTURE AND NEGOTIATION WITH FORMER OWNERS AS EARLY AS THAT. PROSPECTIVE GOVERNMENT SHIFTS ARE ALMOST CERTAIN TO SLOW DOWN THE PROCESS FURTHER. IF RARIVOSON IS REPLACED, HIS SUCCESSOR WILL PROBABLY NOT BE AS WESTERN ORIENTED, WHICH MAKES PROSPECTS FOR ADEQUATE COMPENSATION EVEN MORE DOUBTFUL. MOREOVER, APPARENT FRENCH AND ITALIAN PLANS TO "COOPERATE" WITH GDRM RE NEGOTIATIONS MAY ADVERSELY AFFECT HARD LINE WHICH US COMPANIES REPORTEDLY PLAN TO TAKE. MORE EXTENSIVE COMMENTS WILL FOLLOW AFTER I SEE RARIVOSON OR, IF NECESSARY, OTHER APPROPRIATE SENIOR OFFICIAL. SHEINBAUM

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